



City of Santa Barbara
Airport Department

DATE: June 20, 2012
TO: Airport Commission
FROM: Karen Ramsdell, Airport Director
SUBJECT: FY2013 Airport Commercial/Industrial Lease Rates

RECOMMENDATION: That Airport Commission approve the proposed Fiscal Year 2013 Commercial/Industrial Rental Rates, for land and buildings at the Airport.

DISCUSSION:

Background

The Business & Property Management Program is charged with maintaining the Airport's self-sufficiency and strong financial position by prudent fiscal management of its fixed assets.

The Division currently manages 326,240 square feet of buildings and 4,825,402 square feet of land, including 138 tenants and 154 agreements, not including taxicabs. These tenants include:

- Leases, licenses, and concession agreements associated with the operation of commercial air service (airlines, rental cars, restaurant, gift shop, TSA, shuttle services, parking, ATM machine etc.)
- General aviation agreements (FBOs, T-hangars, flight schools, maintenance & avionics shops, freight carriers, charter air services, and aircraft washing services.)
- Commercial/Industrial leases (offices, research & development, light industrial and storage spaces).

The current average occupancy rate for both buildings and land for 2012 is 99.2% for land and 98.4% for buildings.

Most potential tenants continue to learn of Airport vacancies by word of mouth, Santa Barbara City TV, or the Airport website flysba.com. The Airport has also posted signs in several visible locations. The posting of the signs displaying the Administration phone number has resulted in an increase in inquiries regarding vacant properties.

Effects of the Current State of the Economy

The UCSB Economic Forecast and other reputable sources have predicted that the economy will improve at the rate of 2% per year, but not make significant gains until 2018. The current economic recession continues to affect Airport tenants. The Airport tenants continue to consolidate their operations and are requesting some form of rent relief. The number of delinquent tenants has decreased slightly from five in FY 2011 to three in FY2012. At this time,

two tenants are on payment plans and are making regular payments to address their delinquencies.

Rental Rate Adjustments

Historically, Airport month-to-month leases call for a minimum 3% maximum 8% annual CPI increase based upon the monthly index published by the Bureau of Labor Statistics for the Los Angeles-Riverside-Orange County area. The average CPI adjustment for the past ten years (CY 2002-2011) was 2.7%. It averaged 2.0% for the last five years. From January to December 2011 the average was 2.7%. However, in the last twelve months (May 2011 – April 2012), the CPI index averaged 2.5% down .2% from the 2011 CPI average. Current rental adjustments are being made at the 3% minimum.

Several Airport tenants have term leases with set rental adjustments of 3%-5%. The tenants with five-year terms set in 2007 when the market was strong, have had set rental increases of 5% per year. These leases are now above market rate.

Market Analysis

A market analysis was conducted by examining newspaper advertisements for Goleta Commercial/Industrial properties, the Radius Group bulletins, monthly and quarterly reports, and the UCSB Economic Forecast.

The current rental market in Goleta was evaluated over a four week period in May. During this period, five office vacancies and three industrial spaces that did not exceed the maximum square footage for an Airport building came on the market. The highest proposed rental rate for office space advertised in the Santa Barbara News Press was \$1.55 and the highest industrial rate \$1.25. A comparison of average Airport rates to Goleta rates is shown below.

	Goleta			Airport	
	<u>2011</u>	<u>2012</u>		<u>2011</u>	<u>2012</u>
	<i>UCSB</i>	<i>UCSB</i>	<i>News Press</i>		
Office:	\$1.67	\$1.68	\$1.36	\$1.56	\$1.44*
Industrial/R&D	\$1.22	\$1.19	\$1.00	\$1.07	\$1.12
Warehouse	no comps	no comps	no comps	\$.71	\$.69
Land	no comps	no comps	no comps	\$.15 unpaved	\$.16
				\$.21 paved	\$.20

**single offices with higher rents of \$1.70 and above removed from calculation*

Recent advertisements, provided by the Radius Group, indicate that some Airport properties may be exceeding market rate. With this in mind, the Airport retained Hammock, Arnold and Smith to prepare an appraisal of selected properties in order to establish whether or not the current rates were reasonable within the overall context of the surrounding properties. After reviewing the results, Staff and Lease Review Subcommittee concluded that obtaining a second appraisal would be beneficial for comparative purposes. The second appraisal was performed by Schott & Company. The results are shown below:

		AIRPORT	HAMMOCK	SCHOTT
Land	Paved	.20	.17	.13
Land	Unpaved	.16		.13
Bldg. 225	Industrial	1.07	.48	1.00
Bldg. 303	Industrial/Storage	1.19	1.25	1.00
Bldg. 333	Office/R&D	1.44*	1.50	1.35
Bldg. 344	R&D/Industrial	1.37	1.25	1.20
Bldg. 312	Office R&D	1.45	1.50	1.20

The highest office comp used in the Hammock appraisal was \$1.70 and \$1.68 in the Schott appraisal. The highest industrial comps were \$1.25 in the Hammock appraisal and \$1.28 in the Schott appraisal.

Rental Rate Analysis

Based upon Staff's analysis of all the information provided and considering the relative condition and age of Airport buildings, Staff feels that Airport rental rates need to be adjusted slightly to reflect the current market. The last adjustment to the rental rates was July 1, 2008.

Proposed Rates for FY 2013

Based upon the comparables in the Goleta area, the prevailing economic climate, and the appraisals by Hammock, Arnold & Smith, and Schott & Company, Airport staff proposes an adjustment to the lease rates for FY2013 as shown below.

Buildings:

Office	\$1.35 to \$1.85 \$1.70/ square foot / month
Industrial / R & D/ Shop / Assembly	\$.95 to \$1.50/square foot / month
Storage / Warehouse	\$.68 \$.65 to \$1.00 \$.85/ square foot / month
Storage Containers*:	\$.40/square foot/month

<u>Land:</u>	\$.14 \$.13 to \$.37 \$.30/ square foot / month
Parking Spaces:	\$14.00/space/month

*The Container Category has been removed from the rental rate schedule because containers are now considered as "sheds" and as such no longer require the Airport to give up Measure "E" square footage.

Impact to the Airport

The Airport's budget is established by first projecting revenue from the tenant leases, and user fees. Budget projections are also included in the Airport's cash flow forecast. The projections do take into account possible vacant properties and potential development, so there is some flexibility in the estimates. Commercial/Industrial revenues for the FY2013 budget, including utilities and permits, were estimated at \$4,345,075 based on projected FY2012 Commercial/Industrial revenue of \$4,352,359. Any major change to rental rates could have an adverse impact to the Airport's budget, however, the proposed rate adjustments should not affect the proposed annual Commercial/Industrial budget.

Lease Review Subcommittee

The Airport Commission Lease Review Subcommittee met on May 30, 2012, reviewed the staff report and appraisals, and approved the proposed rates as presented.